

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Members of the Grayson County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC., Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Grayson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Grayson County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GRAYSON COUNTY FISCAL COURT

June 30, 2005

Peercy and Gray, PSC has completed the audit of the Grayson County Fiscal Court for fiscal year ended June 30, 2005.

We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Grayson County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$4,699,702 as of June 30, 2005. The fiscal court had unrestricted net assets of \$ 2,192,692 in its governmental activities as of June 30, 2005, with total net assets of \$4,600,629. In its enterprise fund, total net cash and cash equivalents were \$53,894 with total net assets of \$99,073. The fiscal court had total debt principal as of June 30, 2005 of \$9,549,855 with \$376,482 due within the next year.

Report Comment:

- Magistrates Should Not Receive Monthly Car Allowance

Deposits:

As of August 31, 2004 and June 30, 2005, \$558,251 and \$147,603 respectively of the fiscal court's deposits were uninsured and uncollateralized by bank securities or bonds.

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PEERCY AND GRAY, PSC

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Gary Logsdon, Grayson County Judge/Executive

Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grayson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Grayson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Grayson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grayson County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Members of the Grayson County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grayson County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2005 on our consideration of Grayson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Magistrates Should Not Receive Monthly Car Allowance

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
December 27, 2005

GRAYSON COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Gary Logsdon	County Judge/Executive
Stgeve Henderson	Magistrate
Alvin W. Dockery	Magistrate
Bill Skaggs	Magistrate
Randy Jason Dennis	Magistrate
Andy Logsdon	Magistrate
Curtis Wells	Magistrate

Other Elected Officials:

Thomas H. Goff	County Attorney
Joey F. Stanton	Jailer
Carletta Farris	County Clerk
Carroll Gibson	Circuit Court Clerk
David Simon	Sheriff
James Blanton	Property Valuation Administrator
Ronald Hudson	Coroner

Appointed Personnel:

Rebecca Hayse	County Treasurer
Larry Holeman	Occupational Tax Collector
Freida Alexander	Finance Officer

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GRAYSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

GRAYSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,574,512	\$ 53,894	\$ 2,628,406
Total Current Assets	<u>2,574,512</u>	<u>53,894</u>	<u>2,628,406</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	717,594		717,594
Buildings	10,216,960		10,216,960
Vehicles and Equipment	641,418	45,179	686,597
Total Noncurrent Assets	<u>11,575,972</u>	<u>45,179</u>	<u>11,621,151</u>
Total Assets	<u>14,150,484</u>	<u>99,073</u>	<u>14,249,557</u>
LIABILITIES			
Current Liabilities:			
Due Within One Year-			
Bonds Payable	265,000		265,000
Financing Obligations Payable	111,482		111,482
Total Current Liabilities	<u>376,482</u>		<u>376,482</u>
Noncurrent Liabilities:			
Due In More Than One Year-			
Bonds Payable	8,720,000		8,720,000
Financing Obligations Payable	453,373		453,373
Total Noncurrent Liabilities	<u>9,173,373</u>		<u>9,173,373</u>
Total Liabilities	<u>9,549,855</u>		<u>9,549,855</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	2,026,117	45,179	2,071,296
Restricted For:			
Debt Service	381,820		381,820
Unrestricted	2,192,692	53,894	2,246,586
Total Net Assets	<u>\$ 4,600,629</u>	<u>\$ 99,073</u>	<u>\$ 4,699,702</u>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

GRAYSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 770,035	\$ 138	\$ 245,559	\$ 22,635
Protection to Persons and Property	5,766,922	69,198	7,318,752	56,424
General Health and Sanitation	122,858			
Social Services	3,144			
Recreation and Culture	55,674			
Roads	1,854,184		1,698,139	
Debt Service	495,816			
Capital Projects	124,347			124,347
Administration	2,738,339			
Total Governmental Activities	11,931,319	69,336	9,262,450	203,406
Business-type Activities:				
Jail Canteen	657,739	665,256		
Total Business-type Activities	657,739	665,256		
Total Primary Government	\$ 12,589,058	\$ 734,592	\$ 9,262,450	\$ 203,406

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational Taxes
Other Taxes

Excess Fees

Gain On Sale of Asset

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (501,703)	\$	\$ (501,703)
1,677,452		1,677,452
(122,858)		(122,858)
(3,144)		(3,144)
(55,674)		(55,674)
(156,045)		(156,045)
(495,816)		(495,816)
(2,738,339)		(2,738,339)
(2,396,127)		(2,396,127)
	7,517	7,517
	7,517	7,517
(2,396,127)	7,517	(2,388,610)
434,004		434,004
64,274		64,274
96,058		96,058
1,099,097		1,099,097
542,520		542,520
155,706		155,706
2,400		2,400
383,544		383,544
56,209		56,209
2,833,812		2,833,812
437,685	7,517	445,202
4,162,944	91,556	4,254,500
\$ 4,600,629	\$ 99,073	\$ 4,699,702

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

GRAYSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 208,214	\$ 824,063	\$ 1,080,696	\$ 461,539	\$ 2,574,512
Total Assets	<u>\$ 208,214</u>	<u>\$ 824,063</u>	<u>\$ 1,080,696</u>	<u>\$ 461,539</u>	<u>\$ 2,574,512</u>
FUND BALANCES					
Reserved for:					
Debt Service Fund	\$	\$	\$	\$ 381,820	\$ 381,820
Unreserved:					
General Fund	208,214				208,214
Special Revenue Funds		824,063	1,080,696	79,719	1,984,478
Total Fund Balances	<u>\$ 208,214</u>	<u>\$ 824,063</u>	<u>\$ 1,080,696</u>	<u>\$ 461,539</u>	<u>\$ 2,574,512</u>

Reconciliation to Statement of Net Assets:

Total Fund Balances	2,574,512
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	14,211,443
Accumulated Depreciation	(2,635,471)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(564,855)
Bonded Debt	<u>(8,985,000)</u>
Net Assets Of Governmental Activities	<u>\$ 4,600,629</u>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 1,225,962	\$ 714,414	\$
In Lieu Tax Payments	15,473		
Excess Fees	155,706		
Licenses and Permits	6,745		
Intergovernmental	324,618	1,661,617	7,258,752
Charges for Services	138		69,198
Miscellaneous	101,686	38,877	245,086
Interest	5,614	19,498	25,107
Total Revenues	<u>1,835,942</u>	<u>2,434,406</u>	<u>7,598,143</u>
EXPENDITURES			
General Government	792,430		
Protection to Persons and Property	167,467		5,136,915
General Health and Sanitation	110,252		
Social Services			
Recreation and Culture	48,592		
Roads		1,825,505	
Debt Service	54,441	56,522	3,130
Capital Projects	373,500		
Administration	782,105	276,174	1,604,166
Total Expenditures	<u>2,328,787</u>	<u>2,158,201</u>	<u>6,744,211</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(492,845)</u>	<u>276,205</u>	<u>853,932</u>
Other Financing Sources (Uses)			
Financing Obligation Proceeds	373,500		
Transfers From Other Funds	116,000		
Transfers To Other Funds	(60,000)	(116,000)	(791,315)
Total Other Financing Sources (Uses)	<u>429,500</u>	<u>(116,000)</u>	<u>(791,315)</u>
Net Change in Fund Balances	(63,345)	160,205	62,617
Fund Balances - Beginning	271,559	663,858	1,018,079
Fund Balances - Ending	<u>\$ 208,214</u>	<u>\$ 824,063</u>	<u>\$ 1,080,696</u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 273,359	\$ 2,213,735
	15,473
	155,706
	6,745
220,869	9,465,856
	69,336
295	385,944
5,991	56,210
<u>500,514</u>	<u>12,369,005</u>
7,568	799,998
369,012	5,673,394
12,606	122,858
1,195	1,195
7,082	55,674
5,712	1,831,217
758,945	873,038
124,347	497,847
75,895	2,738,340
<u>1,362,362</u>	<u>12,593,561</u>
<u>(861,848)</u>	<u>(224,556)</u>
	373,500
851,315	967,315
	<u>(967,315)</u>
<u>851,315</u>	<u>373,500</u>
(10,533)	148,944
472,072	2,425,568
<u>\$ 461,539</u>	<u>\$ 2,574,512</u>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

GRAYSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	148,944
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Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Book Value-Disposed Assets		(1,000)
Capital Outlay		655,678
Depreciation Expense		(369,659)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation		(373,500)
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Financing obligations and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

Financing Obligations		127,222
Bond Payments		250,000

Change in Net Assets of Governmental Activities	\$	437,685
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GRAYSON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

GRAYSON COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Fund	Jail Canteen Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 53,894	
Total Current Assets	<u>53,894</u>	
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	63,708	
Less Accumulated Depreciation	<u>(18,529)</u>	
Total Noncurrent Assets	<u>45,179</u>	
Total Assets	<u>99,073</u>	
Net Assets		
Invested in Capital Assets,		
Net of Related Debt	45,179	
Unrestricted	<u>53,894</u>	
Total Net Assets	<u>\$ 99,073</u>	

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 665,256
Total Operating Revenues	<u>665,256</u>
Operating Expenses	
Cost of Sales	232,832
Jail Fees	47,098
Entertainment	23,425
Pay Commissary	275,349
Depreciation	11,942
Miscellaneous	65,041
Total Operating Expenses	<u>655,687</u>
Operating Income (Loss)	<u>9,569</u>
Nonoperating Revenues (Expenses)	
Inmate Refunds	<u>(2,052)</u>
Total Nonoperating Revenues (Expenses)	<u>(2,052)</u>
Change In Net Assets	7,517
Total Net Assets - Beginning	<u>91,556</u>
Total Net Assets - Ending	<u><u>\$ 99,073</u></u>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

GRAYSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 665,256
Cost of Sales	(232,832)
Jail Fees	(47,098)
Entertainment	(23,425)
Pay Commissary	(275,349)
Miscellaneous	(65,041)
Net Cash Provided By Operating Activities	<u>21,511</u>
Cash Flows From Noncapital Financing Activities	
Inmate Refunds on Accounts	(2,052)
Net Cash (Used) By Noncapital Financing Activities	<u>(2,052)</u>
Cash Flows From Capital and Related Financing Activities	
Capital Assets Purchased	(46,240)
Net Cash (Used) By Capital and Related Financing Activities	<u>(46,240)</u>
Net (Decrease) in Cash and Cash Equivalents	(26,781)
Cash and Cash Equivalents - July 1, 2004	<u>80,675</u>
Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 53,894</u></u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

	Business-Type Activities - Enterprise Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income	\$ 9,569
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>11,942</u>
Net Cash Provided By Operating Activities	<u><u>\$ 21,511</u></u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

GRAYSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	<u>Agency Fund</u>
	<u>Jail Inmate Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 68,360
Total Assets	<u> 68,360</u>
Liabilities	
Amounts Held In Custody For Others	<u> 68,360</u>
Total Liabilities	<u><u> 68,360</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Grayson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes no organizations that are legally separate from the primary government

C. Grayson County Elected Officials Not Part Of Grayson County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Grayson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Grayson County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grant Fund, Emergency 911 Fund and Detention Facility Project Bond Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund and Emergency 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Detention Facility Project Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Utility Tax Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Account - This fund accounts for funds received from inmates and held until the inmates use these funds.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 50,000	10-75
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 15,000	3-25
Vehicles	\$ 12,500	3-25
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Grayson County Fiscal Court: Grayson County Water Districts, Grayson County Soil Conservation District, Grayson County Extension Service, and Grayson County Library.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk-Deposits

Custodial Credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2004, and June 30, 2005, the County's bank balance of \$2,759,813 and \$847,603 were exposed to custodial credit risk as follows:

- Unsecured and uncollateralized at-

8/31/04	\$558,251
6/30/05	\$147,603

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 404,094	\$ 313,500	\$	\$ 717,594
Total Capital Assets Not Being Depreciated	404,094	313,500		717,594
Capital Assets, Being Depreciated:				
Buildings	11,985,196	78,230		12,063,426
Vehicles and Equipment	1,183,475	263,948	(17,000)	1,430,423
Total Capital Assets Being Depreciated	13,168,671	342,178	(17,000)	13,493,849
Less Accumulated Depreciation For:				
Buildings	(1,631,104)	(215,362)		(1,846,466)
Vehicles and Equipment	(650,708)	(154,297)	16,000	(789,005)
Total Accumulated Depreciation	(2,281,812)	(369,659)	16,000	(2,635,471)
Total Capital Assets, Being Depreciated, Net	10,886,859	(27,481)	(1,000)	10,858,378
Governmental Activities Capital Assets, Net	<u>\$ 11,290,953</u>	<u>\$ 286,019</u>	<u>\$ (1,000)</u>	<u>\$ 11,575,972</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 17,468	\$ 46,240	\$	\$ 63,708
Total Capital Assets Being Depreciated	17,468	46,240		63,708
Less Accumulated Depreciation For:				
Vehicles and Equipment	(6,587)	(11,942)		(18,529)
Total Accumulated Depreciation	(6,587)	(11,942)		(18,529)
Total Capital Assets, Being Depreciated, Net	10,881	34,298		45,179
Business-Type Activities Capital Assets, Net	<u>\$ 10,881</u>	<u>\$ 34,298</u>	<u>\$</u>	<u>\$ 45,179</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 29,740
Protection to Persons and Property	300,003
Social Services	1,949
Roads	<u>37,967</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 369,659</u>
<u>Business-Type Activities</u>	
Jail Canteen	<u>\$ 11,942</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 11,942</u>

Note 4. Long-term Debt-Bonds

General Obligation Improvement Bonds, Series 1999

The fiscal court issued obligations, dated September 1, 1999 and payable in 25 annual installments beginning September 1, 2002, with semi-annual interest payments on the first of March and September at varying rates from 5.0 % to 5.375 %. The fiscal court issued the bonds for the purpose of constructing a Detention Center. As of June 30, 2005, bonds outstanding were \$ 8,985,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 265,000	\$ 464,370
2007	280,000	450,745
2008	290,000	436,495
2009	305,000	421,620
2010	325,000	405,870
2011-2015	1,880,000	1,758,108
2016-2020	2,450,000	1,194,116
2021-2025	<u>3,190,000</u>	<u>447,200</u>
Totals	<u>\$ 8,985,000</u>	<u>\$ 5,578,524</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt-Financing Obligations

A. Voting Machines

On December 18, 1997 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of voting machines in the amount of \$127,620 at 4.25 percent interest for a period of ten years, with principal and interest paid monthly. The principal outstanding as of June 30, 2005 was \$37,066. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 14,397	\$ 894
2007	14,966	483
2008	7,703	83
Totals	<u>\$ 37,066</u>	<u>\$ 1,460</u>

B. Sheriff's Vehicles

On July 24, 2000 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding the Sheriff's vehicles in the amount of \$41,137 at 4.75 percent interest for a period of five years, with principal and interest paid monthly. The principal outstanding as of June 30, 2005 was \$1,475. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 1,475	\$ 40
Totals	<u>\$ 1,475</u>	<u>\$ 40</u>

C. Ambulances

On February 20, 2000 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of ambulances in the amount of \$80,860 at 3.75 percent interest for a period of five years, with principal and interest paid monthly. The principal outstanding as of June 30, 2005 was \$1,425. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 1,425	\$ 55
Totals	<u>\$ 1,425</u>	<u>\$ 55</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long-term Debt-Financing Obligations (Continued)

D. Ambulance

On July 20, 2001 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of an ambulance in the amount of \$35,000 at 3.70 percent interest for a period of six years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2005 was \$15,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 5,000	\$ 620
2007	10,000	280
Totals	<u>\$ 15,000</u>	<u>\$ 900</u>

E. Computers and Copy Machine

On March 20, 2002 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of computers and a copy machine in the amount of 22,000 at 3.25 percent interest for a period of four years, with principal and interest paid monthly. The principal outstanding as of June 30, 2005 was \$3,860. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 3,860	\$ 48
Totals	<u>\$ 3,860</u>	<u>\$ 48</u>

F. Tractor and Mower

On May 16, 2001 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a tractor and mower in the amount of \$60,000 at 3.48 percent interest for a period of five years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2005 was \$15,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 15,000	\$ 401
Totals	<u>\$ 15,000</u>	<u>\$ 401</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long term Debt-Financing Obligations (Continued)

G. Trucks

On April 21, 2003 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of three trucks in the amount of \$51,000 at 2.67 percent interest for a period of five years, with interest paid monthly and principal paid annually. The principal standing as of June 30, 2005 was \$30,830. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 10,199	\$ 907
2007	10,276	559
2008	10,355	208
Totals	<u>\$ 30,830</u>	<u>\$ 1,674</u>

H. Truck and Backhoe

On December 23, 2003 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a truck and backhoe in the amount of \$55,500 at 2.73 percent interest for a period of five years, with principal and interest paid monthly. The principal outstanding as of June 30, 2005 was \$40,623. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 10,895	\$ 1,279
2007	11,231	906
2008	11,578	521
2009	6,919	121
Totals	<u>\$ 40,623</u>	<u>\$ 2,827</u>

I. Dictaphone Freedom Recording System

On June 19, 2003 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a Dictaphone Freedom Recording System in the amount of \$15,712 at a variable interest rate for a period of five years, with principal and interest paid yearly. The principal outstanding as of June 30, 2005 was \$8,275. Future principal and interest requirements are:

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long term Debt-Financing Obligations (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	2,477	652
2007	2,749	381
2008	3,049	81
Totals	<u>\$ 8,275</u>	<u>\$ 1,114</u>

J. Dictaphone, Freedom Recording System

On June 19, 2003 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a Dictaphone Freedom Recording System in the amount of \$15,712 at a variable interest rate for a period of five years, with principal and interest paid yearly. The principal outstanding as of June 30, 2005 was \$8,237. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 2,466	\$ 677
2007	2,736	407
2008	3,035	106
Totals	<u>\$ 8,237</u>	<u>\$ 1,190</u>

K. Emergency 911 Equipment

On July 16, 1999 the County entered into an agreement with GTE Leasing Corporation for funding of 911 equipment in the amount of \$152,815 at 6.88 percent interest for a period of seven years, with principal and interest paid monthly. Due to an increase in the cost of debt and a change in some of the equipment, the agreement was amended on May 4, 2000 to the amount of \$155,587 at 7.52 percent. The principal outstanding as of June 30, 2005 was \$29,563. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 27,381	\$ 1,296
2007	2,182	
Totals	<u>\$ 29,563</u>	<u>\$ 1,296</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long term Debt-Financing Obligations (Continued)

L. Property

On December 10, 2004 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of property in the amount of \$300,000 at a variable interest rate for a period of 25 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2005 was \$300,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 5,000	\$ 14,739
2007	5,000	14,482
2008	10,000	14,025
2009	10,000	13,521
2010	10,000	13,025
2011-2015	50,000	57,686
2016-2020	50,000	45,309
2021-2025	160,000	39,225
Totals	<u>\$ 300,000</u>	<u>\$ 212,012</u>

M. Ambulance

On June 25, 2005 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of an ambulance in the amount of \$60,000 at 4.25 percent interest for a period of five years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2005 was \$60,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 9,907	\$ 2,791
2007	11,338	2,205
2008	11,920	1,802
2009	12,532	1,275
2010	13,175	633
2011-2015	1,128	22
Totals	<u>\$ 60,000</u>	<u>\$ 8,728</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Long term Debt-Financing Obligations (Continued)

N. Property

On June 7, 2005 the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of property in the amount of \$13,500 at 4.25 % interest for a period of five years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2005 was \$13,500. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 2,000	\$ 538
2007	3,000	408
2008	3,000	290
2009	3,000	172
2010	2,500	61
Totals	<u>\$ 13,500</u>	<u>\$ 1,469</u>

O. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds (Note 4)	\$ 9,235,000	\$	\$ 250,000	\$ 8,985,000	\$ 265,000
Financing Obligations	<u>318,577</u>	<u>373,500</u>	<u>127,222</u>	<u>564,855</u>	<u>111,482</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 9,553,577</u>	<u>\$373,500</u>	<u>\$ 377,222</u>	<u>\$ 9,549,855</u>	<u>\$ 376,482</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$20,359 in interest on financing obligations and \$477,245 in interest on bonds and notes.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

On April 3, 2003, the Grayson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Grayson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 10. Detention Center Accounting System

Beginning in fiscal year ending June 30, 2003, the County Jailer assumed responsibility for paying and accounting for Jail Fund expenditures. The County Treasurer still receives, deposits and records Jail Fund revenue in the receipts ledger, and receives and reconciles monthly bank statements to receipts. The County Jailer receives invoices from vendors, computes payroll for jail personnel, presents claims to fiscal court for approval, prepares Jail Fund checks, maintains the Jail Fund appropriations ledger and warrant distribution register, and reconciles monthly bank statements. Jail Fund checks are co-signed by the County Jailer, in addition to the County Judge/Executive and County Treasurer.

Note 11. Prior Period Adjustment

Beginning Net Assets and the Beginning Balance of Long-term Liabilities has been restated \$2,148 due to debt previously not included in the prior year.

GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

GENERAL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,062,000	\$ 1,096,500	\$ 1,225,962	\$ 129,462
In Lieu Tax Payments	8,500	8,500	15,473	6,973
Excess Fees	22,707	153,707	155,706	1,999
Licenses and Permits	6,917	6,917	6,745	(172)
Intergovernmental Revenue	237,800	294,224	324,618	30,394
Charges for Services	25,300	25,300	138	(25,162)
Miscellaneous	52,000	77,000	101,686	24,686
Interest	2,000	2,000	5,614	3,614
Total Revenues	<u>\$ 1,417,224</u>	<u>\$ 1,664,148</u>	<u>\$ 1,835,942</u>	<u>\$ 171,794</u>
EXPENDITURES				
General Government	750,523	819,813	792,431	27,382
Protection to Persons and Property	121,609	168,352	167,467	885
General Health and Sanitation	107,859	111,459	110,252	1,207
Recreation and Culture	50,000	50,000	48,592	1,408
Debt Service	45,270	54,441	54,441	
Capital Projects			373,500	(373,500)
Administration	587,963	787,583	782,105	5,478
Total Expenditures	<u>\$ 1,663,224</u>	<u>\$ 1,991,648</u>	<u>\$ 2,328,788</u>	<u>\$ (337,140)</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(246,000)</u>	<u>(327,500)</u>	<u>(492,846)</u>	<u>(165,346)</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds			373,500	373,500
Transfers From Other Funds	116,000	116,000	116,000	
Transfers To Other Funds	(60,000)	(60,000)	(60,000)	
Total Other Financing Sources (Uses)	<u>\$ 56,000</u>	<u>\$ 56,000</u>	<u>\$ 429,500</u>	<u>\$ 373,500</u>
Net Changes in Fund Balance	(190,000)	(271,500)	(63,346)	208,154
Fund Balance - Beginning	<u>190,000</u>	<u>271,500</u>	<u>271,560</u>	<u>60</u>
Fund Balance - Ending	<u><u>\$</u></u>	<u><u>\$</u></u>	<u><u>\$ 208,214</u></u>	<u><u>\$ 208,214</u></u>

GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 590,000	\$ 590,000	\$ 714,414	\$ 124,414
Intergovernmental Revenue	1,326,120	1,326,120	1,661,617	335,497
Miscellaneous	7,500	7,500	38,877	31,377
Interest	6,000	6,000	19,498	13,498
Total Revenues	<u>\$ 1,929,620</u>	<u>\$ 1,929,620</u>	<u>\$ 2,434,406</u>	<u>\$ 504,786</u>
EXPENDITURES				
Roads	\$ 1,592,824	\$ 1,930,324	\$ 1,825,505	\$ 104,819
Debt Service	48,903	59,903	56,522	3,381
Administration	371,893	473,393	276,174	197,219
Total Expenditures	<u>\$ 2,013,620</u>	<u>\$ 2,463,620</u>	<u>\$ 2,158,201</u>	<u>\$ 305,419</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(84,000)</u>	<u>(534,000)</u>	<u>276,205</u>	<u>810,205</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(116,000)</u>	<u>(116,000)</u>	<u>(116,000)</u>	
Total Other Financing Sources (Uses)	<u>(116,000)</u>	<u>(116,000)</u>	<u>(116,000)</u>	
Net Changes in Fund Balance	(200,000)	(650,000)	160,205	810,205
Fund Balance - Beginning	<u>200,000</u>	<u>650,000</u>	<u>663,858</u>	<u>13,858</u>
Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 824,063</u>	<u>\$ 824,063</u>

GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 6,290,044	\$ 6,290,044	\$ 7,258,752	\$ 968,708
Charges for Services	78,000	78,000	69,198	(8,802)
Miscellaneous	205,000	205,000	245,086	40,086
Interest	21,000	21,000	25,107	4,107
Total Revenues	<u>\$ 6,594,044</u>	<u>\$ 6,594,044</u>	<u>\$ 7,598,143</u>	<u>\$ 1,004,099</u>
EXPENDITURES				
Protection to Persons and Property	\$ 4,654,105	\$ 5,374,681	\$ 5,136,915	\$ 237,766
Debt Service	728,000	739,250	3,130	736,120
Administration	2,451,939	1,684,113	1,604,166	79,947
Total Expenditures	<u>\$ 7,834,044</u>	<u>\$ 7,798,044</u>	<u>\$ 6,744,211</u>	<u>\$ 1,053,833</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,240,000)</u>	<u>(1,204,000)</u>	<u>853,932</u>	<u>2,057,932</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds				
Transfers To Other Funds	<u>(20,000)</u>	<u>(20,000)</u>	<u>(791,315)</u>	<u>(771,315)</u>
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(791,315)</u>	<u>(771,315)</u>
Net Changes in Fund Balance	(1,260,000)	(1,224,000)	62,617	1,286,617
Fund Balance - Beginning	<u>1,260,000</u>	<u>1,260,000</u>	<u>1,018,079</u>	<u>(241,921)</u>
Fund Balance - Ending	<u>\$</u>	<u>\$ 36,000</u>	<u>\$ 1,080,696</u>	<u>\$ 1,044,696</u>

GRAYSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation to General Fund

Capital Projects Expenditures-Budgetary Basis	\$	373,500
Less: Financing Obligation Uses Not Budgeted		<u>(373,500)</u>

Total Budgeted Amounts-Final		<u><u> </u></u>
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Financing Obligation Proceeds		373,500
Less: Financing Obligation Proceeds Not Budgeted		<u>(373,500)</u>

Total Budgeted Amounts-Final	\$	<u><u> </u></u>
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**GRAYSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

GRAYSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Local Government Economic Assistance Fund	Emergency 911 Fund
ASSETS		
Cash and Cash Equivalents	57,388	22,331
Total Assets	<u>\$ 57,388</u>	<u>\$ 22,331</u>
FUND BALANCES		
Unreserved:		
Special Revenue Funds	57,388	22,331
Reserved:		
Debt Service Fund		
Fund Balances	<u>\$ 57,388</u>	<u>\$ 22,331</u>

GRAYSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Detention Facility Project Bond Fund	Total Non-Major Governmental Funds
381,820	461,539
<u>\$ 381,820</u>	<u>\$ 461,539</u>
	79,719
<u>381,820</u>	<u>381,820</u>
<u>\$ 381,820</u>	<u>\$ 461,539</u>

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GRAYSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

GRAYSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government Economic Assistance Fund	Federal Grant Fund	Emergency 911 Fund
REVENUES			
Taxes	\$	\$	\$ 273,359
Intergovernmental	36,522	124,347	60,000
Miscellaneous			295
Interest	2,131		511
Total Revenues	<u>38,653</u>	<u>124,347</u>	<u>334,165</u>
EXPENDITURES			
General Government	7,568		
Protection to Persons and Property	42,949		326,063
General Health and Sanitation	12,606		
Social Services	1,195		
Recreation and Culture	7,082		
Bus Service	5,712		
Debt Service	1,526		30,174
Capital Projects		124,347	
Administration			75,895
Total Expenditures	<u>78,638</u>	<u>124,347</u>	<u>432,132</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(39,985)</u>		<u>(97,967)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds			116,000
Total Other Financing Sources (Uses)			116,000
Net Change in Fund Balances	(39,985)		18,033
Fund Balances - Beginning	97,373		4,298
Fund Balances - Ending	<u>\$ 57,388</u>	<u>\$</u>	<u>\$ 22,331</u>

GRAYSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Detention Facility Project Bond Fund	Total Non-Major Governmental Funds
\$	\$ 273,359
	220,869
	295
3,349	5,991
3,349	500,514
	7,568
	369,012
	12,606
	1,195
	7,082
	5,712
727,245	758,945
	124,347
	75,895
727,245	1,362,362
(723,896)	(861,848)
735,315	851,315
735,315	851,315
11,419	(10,533)
370,401	472,072
\$ 381,820	\$ 461,539

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**GRAYSON COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2005

**GRAYSON COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2005

STATE LAWS AND REGULATIONS

Magistrates Should Not Receive Monthly Car Allowance

In the prior year, auditors discovered that the magistrates received a \$650 per month car allowance beginning in July 2003 in violation of KRS 64.710. The Auditor of Public Accounts suggested that the magistrates no longer receive a monthly car allowance and that they be reimbursed for actual travel costs in accordance with the County travel guidelines. In regards to the car allowance paid during the audit period and since that time, to the termination of the allowance by the fiscal court on September 6, 2005, the magistrates could have submitted acceptable documentation to determine if an overpayment exists subject to repayment. The County attorney was consulted about repayment by the magistrates and it was his belief that the matter was thoroughly researched before the allowance was instituted and repayment would not be necessary.

We believe this matter is corrected and no additional recommendation is warranted since the fiscal court no longer provides a \$650 car allowance to magistrates but rather reimburses for actual travel costs.

Response:

None

PRIOR YEAR FINDING

Magistrates Should Be Reimbursed For Automobile Usage Based On The County's Mileage Rate

This was corrected on September 6, 2005, after the fiscal year end of this audit.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Gary Logsdon, Grayson County Judge/Executive
Members of the Grayson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grayson County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 27, 2005. Grayson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grayson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Grayson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- Magistrates Should Not Receive Monthly Car Allowance

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid, with the letters "P", "G", and "P" being particularly large and stylized.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
December 27, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

GRAYSON COUNTY FISCAL COURT

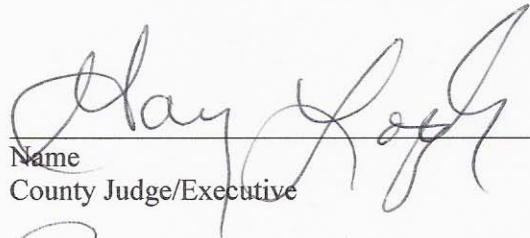
**For The Fiscal Year Ended
June 30, 2005**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

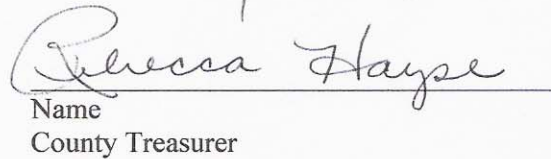
GRAYSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Grayson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

